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Hotel, Restaurant, Institutional Food Service Sector

Report

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Report Highlights: The Latvian HRI sector is relatively small and fragmented. The recent boom in tourism and opening of fast food outlets and restaurants with international cuisines has begun to change the structure of food service market. Latvian HRI service sales totaled USD 128.1 million in 1998, an increase by 37% from USD 93.6 million in 1994. The restaurant and bar subsector is undergoing the fastest development, with an annual increase in sales of 53% over the past five years. With the stabilization of domestic food production, the share of imported foods in hotel catering accounted for 15-20% in 1998, down from nearly 50% in 1994.

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Hotel, Restaurant, Institutional Food Service Sector Report

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I. MARKET SUMMARY

The Latvian Hotel, Restaurant, Institution food services (HRI) sector is relatively small and fragmented. The recent boom in tourism and opening of fast food outlets and restaurants with international cuisines has begun to change the structure of food service market. So far only few companies have developed restaurant chains.

Latvian HRI service sales totaled \$ 128.1 million in 1998, an increase by 37% from 93.6 million in 1994 (sales include strong beverages and tobacco goods). The HRI sector growth was rather moderate over the past five years. The annual growth indice for HRI turnover was 5% in 1998 compared to 31% in 1994.

Imported foods accounted for about 27% of total food service turnover in 1998, an increase from 10% in 1994. For most food products, domestic production capabilities meet 70-90% of demand, and foodstuff imports are viewed as means of adding to the variety.

In 1998, the restaurant and bar subsector led the food service market with a 77% share. This sub-sector is undergoing the fastest development, with an annual increase in sales of 53% over the past five years.

Table: Sales by type of food catering establishment, \$Mil

	1994	1995	1996	1997	1998
Total sales.	93.6	96.1	113.4	115.1	128.1
of which: Hotels and Resorts	4.7	4.6	5.9	7.8	8.1
Restaurants and bars	64.6	67.7	85.9	86.6	98.8
Institutional catering	24.3	23.8	21.6	20.7	21.2

Since the early nineties, different ethnic cuisines have entered the food service industry, e.g. Mexican, Chinese, Vietnamese, Italian, Indian, in addition to fast food entries offering pizzas, hot dogs, hamburgers. Although consumer preferences differ significantly among various income, age and ethnic groups, these new eating habits have been accepted by the younger population and tourists. Still lots of clients remain “tasting level” consumers.

Growth within the restaurant sector has been favored by a growing foreign community and fast growing tourism. In the past five years, the number of tourists increased by 70%, and the number of hotel guests is up by 29%.

The majority of the population is concentrated in big cities. The growing numbers of office employees tend to eat meals in restaurants and fast food entries. Some food service companies offer catering and prepared ready-to-eat meals delivered directly to offices.

Women account for 49% of 1.037 million people employed, and contribute to increased demand in meals consumed away from home.

On average, consumer demand remains very price sensitive. A negative effect of Latvia's fast economic reform has been a skewed income distribution and segments of the population sliding into poverty. In 1998, the average income per household member was US\$ 109, of which US\$ 52 or was spent on food.

Latvians spend approximately 13% of their total food dollar eating out. Prepared home meals are preferred to out of home dining by nearly half of families where the average income is close to minimum subsistence level.

Nearly 30% of the population lives in rural areas where farming provides the staple mainly due to limited real purchasing power

Total population numbers are on the decline, due to negative birth rates and emigration. The official unemployment rate is 10% of the total labor force.

The population is getting older. Of the 2.445 million population in Latvia, 26% are retired. The average pension of \$86 per month does not allow any variety in food purchases.

The fast growing restaurant business, especially fast food entries and international cuisines present the best market for imported foods.

The turnover of food catering by hotels will remain the same, and forecast resorts boom may increase the demand for imported products. No growth is forecast for institutional catering.

Sector strengths and market opportunities

Advantages	Challenges
Image carries over to American food items	Latvian food catering sector is relatively small and fragmented
Overall increase of Latvian food catering sector	Low average spending on meals outside home following the low purchase power
Growth forecast by 75% for fast food restaurants	Rather short menus by most catering establishments require specified food items in rather small quantities
U.S. potential suppliers can guarantee large volumes and consistent product quality	Consumer preferences to domestic foods is based on conservative attitudes to familiar taste, wholesomeness, low content of additives, attractive price

II. ROAD MAP FOR MARKET ENTRY

A. Entry Strategy

New- to-market entrants will have to be aggressive, as suppliers from European countries have already established distribution networks for consumer oriented food products to retail and the small Latvian HRI sector.

The best pattern for entering the market:

- carry out market research in order to estimate product opportunities;
- find an experienced distributor or independent reliable agent with strategic distribution channels, and let him advise on import duties, sanitary regulations, labeling requirements.
- try to calculate the cost of a landed product and overview the competitors. The level of sales depend on price competitiveness;
- personal contact is advisable to discuss marketing. Negotiations of marketing strategies should include funding offers for advertising, slotting allowances, in store promotions and tasting, considerations about the trade fair participation, to raise awareness of the product.
- At present, there are no laws that regulate the relationship between a foreign company and its distributors or agents in Latvia. A distributor relationship can be determined based on specific distributor agreement. No laws regulate franchising yet, and therefore, franchise agreements might be difficult to enforce.
- U.S. products traditionally have lower customer awareness due to lack of promotional activities if compared to European products.

B. Market Structure, Distribution

The HRI industry is very small, hence an initial market strategy should focus on targeting distributors for the retail sector first. Some wholesalers have cash and carry type wholesale operations, but others combine wholesale with HRI sector supplies. A number of smaller importers have specialized by specific type of product, and have local distributing company. In addition to cash and carry operations, large processors and distributors offer direct sales services. Distribution companies import products according to pre-assigned order/agreements with a customer - wholesaler or a retail structure. Imports to bonded warehouses based on consignment contracts are increasingly popular.

Agent/distributor companies are reluctant to receive offers to distribute specific products or limited lists of such products. No wholesaler undertakes a nation wide distribution or carries a complete range of products.

Some specific products, like fish, seafood, frozen foods are supplied by specialized agents/companies. Almost all demand by the retail food market and food service industry for frozen foods is supplied by *Reaton* company. The company contracts local processors to supply them with specific products required by their customers.

C. Sub-Sector Profiles

Restaurants

The restaurant sub-sector is undergoing the fastest development, with an increase in sales of 53% over the past five years. In 1998, sales by restaurants and bars accounted for 77% of the food service market, and further growth is forecast.

The number of restaurants, canteens and cafes has gone down since the early nineties, reflecting a trend towards concentration trend and changes in service patterns. The opening of fast food entries and introduction to international cuisines will further change the structure of the restaurant subsector.

Since 1995 *McDonalds* has opened six outlets and plans include an additional five outlets in two years - located along the major highways outside Riga, the capital. The company in Latvia offers only the basic menu. So far only 10% of supplied food come from Latvian processors: ice-cream, tomatoes and cucumbers. All semi-processed meats are imported from Poland, because domestic processors are not able to invest in equipment required to produce the quality products demanded by the *McDonalds* chain.

SIA Lido offers a typical Latvian food and family-style in a fast-food restaurant chain of six outlets, targeting customers with a traditional Latvian taste preferences. Domestic product supplies prevail. *Later Ltd* owned *Lulu* pizza operated in four locations in Riga.

Table: Fast Food Restaurants, Company Profiles

Company Name	Sales 1998 (\$Mil)	Outlet Name, Type, & Number of Outlets	Location	Purchasing Agents
Later Ltd, fast food/delivery	1.2/0.3	"Lulu Pica", 4 outlets	Riga	Direct from domestic processors, wholesalers
SIA Lido, fast food/home delivery	0.4/0.2	"Lido", 6 fast food restaurants	Riga	Direct from domestic processors, wholesalers
SIA Interkekava Johny pica	0.3	9 outlets	Riga	Direct from domestic processors, wholesalers
McDonalds	4.5	6 outlets	Riga	Agent (<i>SIA Baltic Distribution</i>)
LKCS "Turiba"	4.8	24 outlets	Nation wide	Direct from domestic processors, wholesalers
Jenku pica	0.1	Home/Office Delivery	Riga	Direct from domestic processors, wholesalers
Lolo	0.2	Lolo Pizzeria	Riga	Direct from domestic processors, wholesalers
Manhattan Pizza	0.1	Home/Office Delivery	Riga	Direct from domestic processors, wholesalers

Table: Family style restaurants, company profiles

Company Name	Sales 1998 (\$Mil)	Outlet Name, Type, & Number of Outlets	Location	Purchasing Agents
SIA Lido	2.1	"Lido", 2 Restaurants	Riga	Direct from domestic processors, wholesalers
Skonto zivju restorans	1.5	Restaurant	Riga	Direct from domestic processors, wholesalers
Divi lasi	0.9	Restaurant	Riga	Direct from domestic processors, wholesalers
Zilais putns	0.6	Restaurant	Riga	Direct from domestic processors, wholesalers
Vincents	0.6	Restaurant	Riga	Direct supplies from domestic processors, wholesalers
Anspeteri	0.4	3 Restaurants	Riga	Direct from domestic processors, wholesalers

There is not a significant demand for home/office delivery, therefore only few companies offering such a services. The most seen is *Pica Lulu*, offering free delivery within Riga city if order value exceeds \$8. Orders are accepted online as well. The delivery service sales by Lido increase in line with the expanded list of items on menu.

Hotels and Resorts

The hotels/resorts sub-sector with nearly 150 establishments accounted for 6% of HRI sales worth \$US 8.1 million in 1998. The moderate growth over the past five years will prevail in the nearest future. Main factors contributing to the sector's growth are rise of purchasing power and increased tourism.

With the stabilization of domestic food production, the share of imported foods in hotel catering accounted for 15-20% in 1998, down from nearly 50% in 1994. Almost half of imports is supplied by agent companies, while difference is being sourced at wholesale or delivered directly by processors, like meat and dairy products come from large processing companies *Rigas Miesnieks*, and *Rigas Piena Kombinats*. Fish products are supplied by domestic fisheries, frozen foods agent companies. Fresh vegetables and farm produce is delivered either directly from farms, or sourced at wholesalers.

With the fast development of gourmet cuisines and special menus, even the top line range of hotels are downsizing their menus, in order to rationalize supplies and keep prices low, to attract middle class customers.

Table: Hotel catering companies, company profiles

Company Name	Food Sales 1998 (\$Mil)	Outlet Name, Type, & Number of Outlets	Location	Purchasing Agents
Riga Hotel	0.9	3 restaurants, bar	Riga	Agents, wholesalers
Radisson SAS Daugava Hotel	1.6	3 restaurants	Riga	Agents, wholesalers
Metropole Hotel	0.7	restaurant	Riga	Agents, wholesalers
Hotel de Rome	1.2	2 restaurants, bar	Riga	Agents, wholesalers
Latvija Hotel	1.1	3 restaurants, 2 bars	Riga	Agents, wholesalers
Man-Tess	0.3	restaurant	Riga	Agents, wholesalers
Konventa Seta	0.3	restaurant	Riga	Agents, wholesalers
DanLat	0.1	restaurant, bar	Cesis	Agents, wholesalers
Amrita	0.1	restaurant, bar	Liepāja	Agents, wholesalers
Karavella	0.1	restaurant, bar	Riga	Agents, wholesalers
Laine	0.1	restaurant	Riga	Agents, wholesalers
Ridzene Park Hotel	0.1	restaurant	Riga	Agents, wholesalers
Radi un Draugi	0.1	restaurant	Riga	Agents, wholesalers

Institutional Catering Establishments

The sector of institutional establishments within the HRI is the smallest, accounting for 16% of total sector's sales worth \$US 21.2 million. On average, only 10% of food supplied to this sector is imported - mainly edible oils and margarine, occasionally fruits. The sector offers a scarce opportunity for imported food products.

This sector used to be state controlled for years, and independent catering companies have only started to enter the sector. There are no specialized suppliers to this sub-sector. Direct purchases from local food processors and wholesalers are most common. The establishments contract their food supply upon tenders after the annual funding is approved by the respective ministry.

On average, about 35% of food has been supplied by farm producers, 30%-direct purchases from domestic processors, 5% by wholesalers, and 30% through agent companies.

Table: Sales by type of institutional catering establishment, US\$ Mil

Sales by Institutional Catering	1994	1995	1996	1997	1998
Total,	24.3	23.8	21.6	20.7	21.2
Armed forces	5.8	6.1	5.3	5.5	5.6
Company cuisines	2.2	1.9	1.8	1.6	1.6
Prisons	2.1	2.1	1.8	1.8	2.2
Hospitals, retirement houses	7.1	6.6	5.8	5.1	5.1
Schools	7.1	7.1	6.9	6.7	6.7

Food supplied to this segment is of low value-added and companies are cost conscious. The average daily allowance hardly meets the health food requirements. For years there had been a scarce budget funding to the sector, therefore no growth is foreseen in the nearest future.

III. COMPETITION

The main competitors for U.S. suppliers to food industry are Latvian domestic processors and European exporters.

For most products, local production capabilities meet 70-90% of domestic food demand, and foodstuff imports are viewed as means of adding to the variety. Imported foods accounted for about 27% of total food service turnover in 1998, a slight increase from 10% in 1994.

European food companies have captured significant market shares with a strong market presence over the last five-six years as a result of proximity, historical ties, good quality products at competitive prices, marketing support, and logistical advantages. These companies have also benefitted from their government's financial and marketing assistance.

Russia's economic and financial crises during the fall 1998 resulted in serious hardship for many traditionally export-oriented food industries. Price competition involving Latvian domestic food producers, Baltic Free Trade Agreement member countries Estonia and Lithuania, and EU exporters, became quite acute and remains so.

Based on a Free Trade agreement with EU in force since 1995, exports from European countries face lower duties, compared to U.S. exports.

Several constraints have contributed to the small market presence of U.S. foods so far:

- trade terms from U.S. companies are unacceptable to Latvian traders (advance payment requirement up to two-months, assumption of exchange rate risk and container purchases viewed as too large for the small Latvian market);
- a perception among Latvian importers that landed costs of U.S. products will be higher compared to European products, due to added transportation costs;
- a perception that U.S. exporters are simply too far away to service the Latvian market;
- Latvian importers and buyers simply lack information and awareness of U.S. processed food products.

In 1998, the U.S. share of Latvian agricultural trade was US\$ 6.2 million (2.3 %). U.S. exports were led by meat and meat products (23%), fish (22%), dairy products, fruits (7%), cereals (3%), fats and oils, meat and fish preserves, canned vegetables and alcohol beverages. U.S. suppliers dominated in imports of almonds (41%), dried prunes (52%), coffee extracts (45%), poultry products (32%).

IV. BEST PRODUCT PROSPECTS

Products that are present in the market and have good sales potential

Relatively small quantities of U.S. syrups and confectionery are used in the sector. However, without strong promotion sales of these products to caterers will stagnate. There is a strong demand for ostrich meat by gourmet restaurants that wouldn't require volume supplies. The growth in ethnic restaurants sector, like American/Mexican ones, may generate an import opportunity for burgers, hot dogs, muffins, barbeque foods/sauces, pancakes, milk shakes, bagels, cookies, doughnuts, brownies, flapjacks, chili, tacos, tortillas, burritos, enchiladas, salsa, nacho, tostados, jalapenos and Creole/Cajun foods.

Products that will not do well or cannot be used in the market

No certain attitudes have developed yet regarding biotech component, and as an associate member Latvia may follow the EU regulations and certification requirements.

Recent offers of U.S. frozen beef steak with bone were accepted reluctantly by most caterers because of relatively high price and customer preference to fresh meat. Also, the U.S. frozen poultry can't be targeted to the catering sector.

V. FURTHER INFORMATION AND POST CONTACT

The National Food Certification Center is in charge for tests of samples to receive a retail sales permit and certificate of conformity. It is common that the importer or agent undertakes product clearance and approval procedures.

Food Certification Center
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For general questions about product import, please contact:

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